

# City of Stockbridge Investment Policy

## I. Governing Authority

### Legality

The investment program shall be operated in conformance with federal, state, and other legal requirements, including such securities permitted in the Code references below:

- State General Funds/Local Government Investment Pool/State Agency & Local Government Separate Accounts - Investments authorized in O.C.G.A. §§50-5A-7, §§50-17-2 and §§50-17-63;
- State Risk Management Fund/State Health Insurance Fund - Investments authorized in O.C.G.A. §§50-5A-7, §§50-17-2 and §§50-17-63;
- Georgia State Financing and Investment Commission/Georgia Environmental Finance Authority authorized in O.C.G.A. §§50-5A-7, §§50-17-27, §§50-17-2 and §§50-17-63.

## II. Scope

This policy applies to the investment of all funds, excluding the investment of employees' retirement funds. Proceeds from certain bond issues, as well as separate foundation or endowment assets, shall be covered by a separate policy.

### 1. Pooling of Funds

Except for cash in certain restricted and special funds, the City of Stockbridge will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

## III. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

### 1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

#### a. Credit Risk

The City of Stockbridge will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section VII of this Investment Policy;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City of Stockbridge will do business in accordance with Section V;
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

#### b. Interest Rate Risk

The City of Stockbridge will minimize interest rate risk, which is the risk that the market value of securities in the

portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity;
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (see section VIII).

## 2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

## 3. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- A security swap would improve the quality, yield, or target duration in the portfolio;
- Liquidity needs of the portfolio require that the security be sold.

## 4. Local Considerations

Where possible, funds may be invested for the betterment of the local economy or that of local entities within the State. The City of Stockbridge may accept a proposal from an eligible institution that provides for a reduced rate of interest provided that such institution documents the use of deposited funds for community development projects.

# IV. Standards of Care

## 1. Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

The "prudent person" standard states that, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

## 2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make

impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City of Stockbridge.

### 3. Delegation of Authority

Authority to manage the investment program is granted to the City Treasurer, hereinafter referred to as investment officer and derived from Article IV, Section 4.14 of the City of Stockbridge Charter and Code of Ordinances.

Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

## V. Authorized Financial Institutions, Depositories, and Broker/Dealers

### 1. Authorized Financial Institutions, Depositories, and Broker/Dealers

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines;
- Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit counterparties);
- Proof of state registration;
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties);
- Certification of having read and understood and agreeing to comply with the City of Stockbridge's investment policy;
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer.

### 2. Minority and Community Financial Institutions

From time to time, the investment officer may choose to invest in instruments offered by minority and community financial institutions. In such situations, a waiver to certain parts of the criteria under Paragraph 1 may be granted. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with state or local law. These types of investment purchases should be approved by the City Council in advance.

## **VI. Safekeeping and Custody**

### **1. Delivery vs. Payment**

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

### **2. Safekeeping**

Securities will be held by a centralized independent third-party custodian selected by the entity as evidenced by safekeeping receipts in the City of Stockbridge's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

### **3. Internal Controls**

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Stockbridge are protected from loss, theft or misuse. Details of the internal controls system shall be documented in an investment procedures manual and shall be reviewed and updated annually. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

The internal controls structure shall address the following points:

- Control of collusion;
- Separation of transaction authority from accounting and recordkeeping;
- Custodial safekeeping;
- Avoidance of physical delivery securities;
- Clear delegation of authority to subordinate staff members;
- Written confirmation of transactions for investments and wire transfers;
- Dual authorizations of wire transfers;
- Development of a wire transfer agreement with the lead bank and third-party custodian.

Accordingly, the investment officer shall establish a process for an annual independent review through the City of Stockbridge annual independent audit to assure compliance with policies and procedures.

## **VII. Suitable and Authorized Investments**

### **1. Investment Types**

Consistent with the Government Finance Officers Association's Policy Statement on State and Local Laws Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state and local law where applicable:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available;
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable

market value;

- Certificates of deposit and other evidences of deposit at financial institutions;
- Bankers' acceptances;
- Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency;
- Investment-grade obligations of state, provincial and local governments and public authorities;
- Repurchase agreements whose underlying purchased securities consist of the aforementioned instruments;
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation.

Investment in derivatives of the above instruments shall require authorization by the appropriate governing authority.

## 2. Collateralization

As required by Georgia Law, all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit shall be collateralized by margin levels of at least 110 percent.

## 3. Repurchase Agreements

Repurchase agreements shall be consistent with Government Finance Officers Association Recommended Practices on Repurchase Agreements.

# VIII. Investment Parameters

## 1. Diversification

The investments shall be diversified by:

- Limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities);
- Limiting investment in securities that have higher credit risks;
- Investing in securities with varying maturities; and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

## 2. Maximum Maturities

To the extent possible, the City of Stockbridge shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of Stockbridge will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances. The City of Stockbridge shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the legislative body.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as local government investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

### 3. Competitive Bids

The investment officer shall obtain competitive bids from at least two brokers or financial institutions on all purchases of investment instruments purchased on the secondary market.

## **IX. Reporting**

### 1. Methods

The investment officer shall prepare an investment report at least quarterly [or monthly], including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter [or month]. This management summary will be prepared in a manner which will allow the City of Stockbridge to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the entity's chief administrative officer, the legislative body, the investment committee and any pool participants. The report will include the following:

- Listing of individual securities held at the end of the reporting period;
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity in accordance with Governmental Accounting Standards Board (GASB) requirements;
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks;
- Listing of investment by maturity date;
- Percentage of the total portfolio which each type of investment represents.

### 2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken. The benchmarks shall have a similar weighted average maturity as the portfolio.

### 3. Marking to Market

The market value of the portfolio shall be calculated at least quarterly [or monthly] and a statement of the market value of the portfolio shall be issued at least quarterly [or monthly]. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the Government Finance Officers Association (GFOA) Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." In defining market value, considerations should be given to the Governmental Accounting Standards Board (GASB) Statement 31 pronouncement.

## **X. Policy Considerations**

### **1. Exemption**

Any investment currently held that does not meet the guidelines of this policy upon adoption by the City Council shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

### **2. Amendments**

This policy shall be reviewed on an annual basis by the Treasurer and Chair of the City's Finance Committee. Any changes must be approved by the investment officer and any other appropriate authority, as well as the individuals charged with maintaining internal controls.

## **XI. Approval of Investment Policy**

The investment policy shall be formally approved and adopted by the governing body of the City of Stockbridge and reviewed annually by the Treasurer and Chair of the City's Finance Committee.